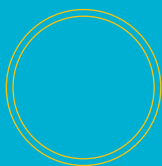
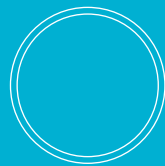
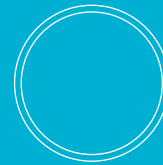
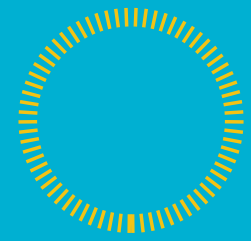


Planning for board excellence



Guidance notes on
the process of
recruiting directors
to co-operative
boards

***Take your co-op
to the next level***



Planning for Board Excellence

The board of directors is critical to the success of a co-operative. Its role is to ensure the co-operative's long-term success in accordance with the International Co-operative Alliance Statement on Co-operative Identity. It oversees the running of the business and makes decisions in the interests of members.

Member ownership and democratic participation underpin the co-operative governance model. The Board is appointed by and accountable to the members who own and control the co-operative.

The Role of the Board

The Board's key responsibilities fall into the following areas:

- **Vision and mission** – set the co-operative's future vision
- **Strategy and objectives** – develop a strategy for success to safeguard the business for the future
- **Culture and values** – set the values, ethos and culture of the co-operative in line with co-operative values, the co-operative's obligations to members and other stakeholders
- **Accountable leadership** – provide effective, accountable leadership which protects the co-operative's assets and be held to account for the co-ops performance
- **Control environment** – establish an effective system of internal controls including risk management and financial processes that ensures compliance with legal and regulatory duties
- **Governance processes** – establish robust governance processes in line with governing documents
- **Succession planning** – maintain a diverse board with an appropriate balance of skills and experiences in order to discharge duties effectively.

It's important that all co-ops, whatever their type, consider the value of recruiting directors with differing relationships to the co-op.

Boards should plan for their succession to ensure they have the right people to safeguard its future success. This could be done through the formulation of an action plan that sets out the retirement cycle of the directors, highlighting the skills and expertise of each director in order to plan effectively for a change in the make-up of the board.

An action plan may also set out the plan for recruiting to the Board to fill skills gaps or provide specific expertise to support the Board through a change in strategy or business direction.

To deliver on its responsibilities, a board must be made up of directors with the right mix of expertise, experience and perspectives to ensure it does not become homogenous i.e. a board made up of like-minded people. A homogenous

board lacks diversity of thought which can result in a lack of debate and constructive challenge. Directors should generate effective discussion around the co-ops focus, potential risks and proposed developments. Homogeneity affects the dynamics of a board and can lead to 'group think' whereby decisions are unquestioned, risks are not fully considered, warnings are ignored and directors self-censure to avoid conflict.

Elected boards

For many co-operatives, the entire board of directors is elected by and from the membership whether those members are workers, customers, tenants, suppliers – or a mix. Often any member of a co-op can be elected as a director without demonstrating the experience and skills needed to carry out the role effectively. Having members on the board increases the likelihood of its directors being passionate about the aims and purpose of the co-op and being driven to make it succeed. But relying just on this approach could leave the make-up of the board dependent on luck and relies on the right people coming forward and being elected. There are steps that all co-ops can take to make their own luck, to ensure the best candidates stand for election to the board.

Qualifying criteria/competency framework – Co-ops may wish to consider developing a competency framework that lays out the level of skill that individuals must have in order to be eligible for nomination to the board. Co-ops should be careful, in attempting to strengthen their boards, not to prioritise the recruitment of those with industry or business skills over competencies in the implementation of co-operative values and principles. The competency level shouldn't be set too high as to discourage member applications but should be high enough to make sure that the board will be competent enough to deal with the issues associated with the size, complexity and risk profile of the co-op.

Whilst each co-op may determine its own competency framework, it may be useful to base it around specific elements of the board's role, for example:

- **Board skills** – this could include financial management, risk management, governance, strategy setting and operational management.
- **Operational environment** – this could include the co-operative movement, knowledge of the business the co-op is operating in (e.g. retail, housing, sale of wholefoods, manufacture of goods for export), political engagement, member and stakeholder engagement.
- **Personal skills/attributes** – analytical thinking, public speaking, leadership skills, ability to challenge and ask questions.

Development Programme – Where a co-op has set a competency framework as a basis for nomination to the board, it should also ensure that there are pathways into the democratic election process for people considering standing for the board in the future. If a person is nominated but does not meet the required level of competency the co-op may choose to tailor a programme of training and development to support them to hopefully become eligible to stand in the future. Member training days could be held to explain the role of a director and any expectation that the co-op has of directors, members interested in becoming directors could shadow a director, attend a board meeting or attend a Q&A session with the Chair.

Director and Board Evaluations – Co-ops should undertake regular director and whole board evaluations to help to identify strengths and gaps in expertise. Often led by the Chair & the Secretary, evaluations help develop an understanding of the areas of competency currently on the Board. Evaluations can be an internal exercise or be undertaken by an external assessor. Where a co-op has adopted a competency framework as a basis for nomination to its board, director and board evaluations should be based on it to ensure consistency. Regular evaluations will inform future director recruitment and promote a culture of ongoing professional development to enable existing directors to build on their existing skills, knowledge and experience. Board and director evaluations need not be a costly and complex process, there are online tools that co-ops can use to support the process of completing an evaluation and then acting on its results.

Transparent nomination and election processes – Transparency and clarity in recruitment, nomination and election procedures are critical to ensuring member engagement and control. The Board should set out, agree and publish the criteria, processes and procedures for nomination and election. Members should be aware of the opportunity to become a member of the Board and be encouraged to stand for election. Communication should be open and engaging and should get people interested in putting themselves forward. Co-ops may have a nominations committee that seeks out members that have some or all of the required skills and expertise. The nominations committee should aim to take an objective view and consider input from the Executive to mitigate the risk that it recruits in its own image which, in time, can lead to a homogenous board.

Independent non-executive appointments

As part of the process of identifying strengths and weaknesses in the Board's make up, co-ops should consider recruiting additional expertise, from outside of the membership, to help optimise the performance of the board – and strengthen the future of the co-op. It is not uncommon for the election process to result in candidates which meet some but not all of the skills gaps that the Board has identified. The focus of recruiting directors should always be to have the strongest possible Board to meet the current and future needs of the co-op's business.

Independent non-executive appointments can offer a more objective opinion or different way of thinking that brings constructive challenge to board discussions. They may be brought in to offer expertise to fill an identified gap where a skill-set hasn't been recruited through the democratic process. A co-op may have a nominations committee which would be responsible for identifying and approaching suitable candidates. Co-ops should decide the terms and condition of such appointments including any associated remuneration.

The success of this approach is dependent on engagement with members – who should retain overall democratic control of elections to the Board. This can be achieved in a number of ways, such as electing or ratifying the appointment of independent non-executive directors onto the board.

Co-ops considering this approach should ensure that their governing documents permit this before any appointments are made, it may be referred to as co-option. Ordinarily, a co-op board would have a majority of member

elected directors and a minority of individuals brought in for specific skills or attributes. If necessary, amendments to governing documents would need to be approved by members at a general meeting.

Executive appointments

As part of the process of identifying strengths and weaknesses in the Board's make up, co-ops should consider whether appointing executives to the Board could help optimise its performance and strengthen the future of the co-op. This could be the chief executive, if the co-op has one, or other executive or staff members. Although this scenario won't be appropriate for all co-ops, there are benefits to having executives on the Board:

- It brings strength and stability and understanding of the co-op's detailed day-to-day operations
- It can strengthen the relationship, and share the load of responsibility, between the board and executive team
- It brings highly skilled and experienced people into the boardroom
- Senior Managers often have some influence over Board decisions, appointing them as directors can help to clarify their role and liabilities if the co-op ever ran into difficulties.

Co-ops considering this approach should ensure that their governing documents permit this before any appointments are made. Ordinarily, a co-op board would have a majority of member elected directors and a minority of individuals brought in for specific skills or attributes. If necessary, amendments to governing documents would need to be approved by members at a general meeting.

The recommendations outlined in this guidance may offer the right solution for every co-op, however, every successful co-op will continuously review its governance processes and practices. All boards should have open and challenging discussions about recruitment, make-up and skills - considering all of the options available for ensuring the most effective Board leads the co-operative forward.

If you are part of a co-operative and would like practical advice and support for considering these recommendations please get in touch with our governance advice team on advice@uk.coop

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